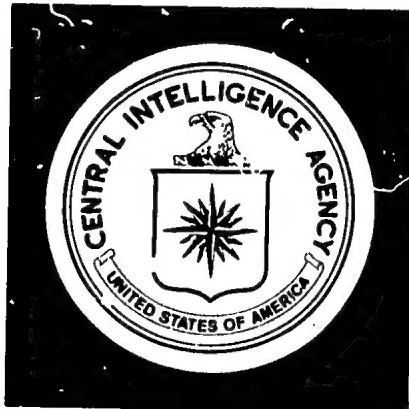


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**DIRECTORATE OF
INTELLIGENCE**

Intelligence Memorandum

India: Low-Key Response to Severe Setback in Agriculture

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
February 1973

INTELLIGENCE MEMORANDUM

**INDIA: LOW-KEY RESPONSE
TO SEVERE SETBACK IN AGRICULTURE**

SUMMARY AND CONCLUSIONS

1. In spite of a serious setback in agricultural production in 1972, India's leadership has avoided large-scale foodgrain imports by drawing down buffer stocks and reducing government-subsidized food rations. Purchases of foreign grain since December have been limited to less than 2 million metric tons in the face of an expected decline in production of 9 million or 10 million tons in the 1972/73 crop year.¹

2. The government has drawn down foodstocks by about 6.5 million tons. Much of the remaining 3 million tons may be unfit for human consumption. Subsidized foodgrain rations in most parts of India have been reduced to 50% or less of the normal level. Nonetheless, no reports have yet been received of widespread starvation. The government apparently has earmarked the limited imported foodgrains for the major cities, where public unrest could erupt into anti-government agitation.

3. New Delhi's decision to limit imports is a calculated risk based on a combination of high hopes for the spring harvest, a reluctance to request concessionary foodgrains, an unwillingness to draw heavily on its foreign exchange reserves, and the steep international prices for grain and shipping. The decision does not preclude the purchase of small amounts through discreet shopping on a fairly continuous basis. Purchases of corn and grain sorghum in lieu of wheat are most likely in order to avoid generating further price rises on world markets.

1. The crop year is from 1 July to 30 June.

Note: This memorandum was prepared by the Office of Economic Research and coordinated within the Directorate of Intelligence. Questions and comments on this Intelligence Memorandum are welcome. They may be directed to [redacted]

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4. So far, the consequences of the drought have been alleviated somewhat by government efforts (a) to redistribute grain from surplus to deficit areas, (b) to increase the scope of the food ration system, and (c) to underwrite public works programs for the rural unemployed. The general result of the government's decision not to make a concerted and costly effort to obtain more food from abroad is likely to be increasing consumer dissatisfaction, growing criticism in the drought areas, and a widening credibility gap regarding New Delhi's statements on the food situation.

DISCUSSION

Introduction

5. In mid-February 1973 large areas of central and western India are experiencing acute shortages of food, water for drinking and irrigation, and electric power. Near-famine conditions are being reported from some areas, and several million people have already migrated to nearby cities and other less affected areas. Scarcity of fodder and water is resulting in the loss of numerous draft animals. This memorandum describes the extent of the drought, its effects on agricultural production and foodstocks, and the government's efforts to cope with the severe food shortages. It also assesses New Delhi's limited options with respect to imports of foodgrains.

Impact of the Drought on Agricultural Output

6. About 75% of India's agricultural production takes place during the summer monsoon season, which normally begins in May or June and lasts through September or October. Most areas receive about 80% of their annual rainfall during this period. Only a few crops are grown during the remainder of the year, mainly wheat, barley, some oilseeds, and minor rice crops. Thus the success of India's crops depends on the timely arrival and intensity of the monsoon. Late arrival delays planting and lowers yields. Below-normal² rainfall results in local crop failures during the summer and insufficient moisture for planting the winter crop. Between 20% and 25% of the cropped area has some form of irrigation, but some of this irrigation fails unless the monsoon is adequate to fill the reservoirs and tanks, to maintain the underground water tables, and to provide hydroelectric power for irrigation pumps.

2. Normal is defined as the average annual rainfall for 1901-50. The Indian government, on the other hand, officially considers annual rainfall within 20% of the 50-year average as "normal."

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7. The 1972 monsoon arrived late and rainfall was erratic throughout the remainder of the monsoon season. Total rainfall from June through September was below normal for all major agricultural areas. It was 20%-50% below normal in areas of the country that usually account for more than half of total foodgrain production. Rainfall was particularly sparse in six states -- Maharashtra, Gujarat, and Rajasthan and parts of Madhya Pradesh, Karnataka (formerly Mysore), and Andhra Pradesh (see the map). Maharashtra, in its third year of drought, is unusually dry. About 220 million people -- more than one-third of India's population -- live in the areas affected by severe drought. Low rainfall has also severely aggravated the chronic food shortage in Bihar. The current drought is about as severe as the droughts of 1965 and 1966, which were centered in the densely populated and intensively cultivated Indo-Gangetic Plain -- including West Bengal.

8. Little more than a year ago, after victory in the war with Pakistan and after five successive years of good crops, India announced its achievement of self-sufficiency in foodgrains production. At the end of 1971, with buffer foodgrain stocks at about 7.5 million tons, New Delhi ended the import of foodgrains on concessionary terms. During the first half of 1972, the government even announced plans for exporting some foodgrain and donated 850,000 tons to the new nation of Bangladesh.

9. The subsequent poor monsoon, however, dashed all hope for self-sufficiency in the near term. Foodgrain output in 1972/73, even assuming a good spring harvest, is projected at about 96 million tons (see the table), 8% below 1971/72 and 11% below the peak year of 1970/71. The fall-harvested foodgrain crop dropped 16% from the previous year. Annual output of cotton, jute, oilseeds, and sugarcane -- important industrial crops planted mainly during the monsoon season -- also is projected to decline sharply. Lack of moisture at the proper time reduced both the area planted and the yields of each of these industrial crops.

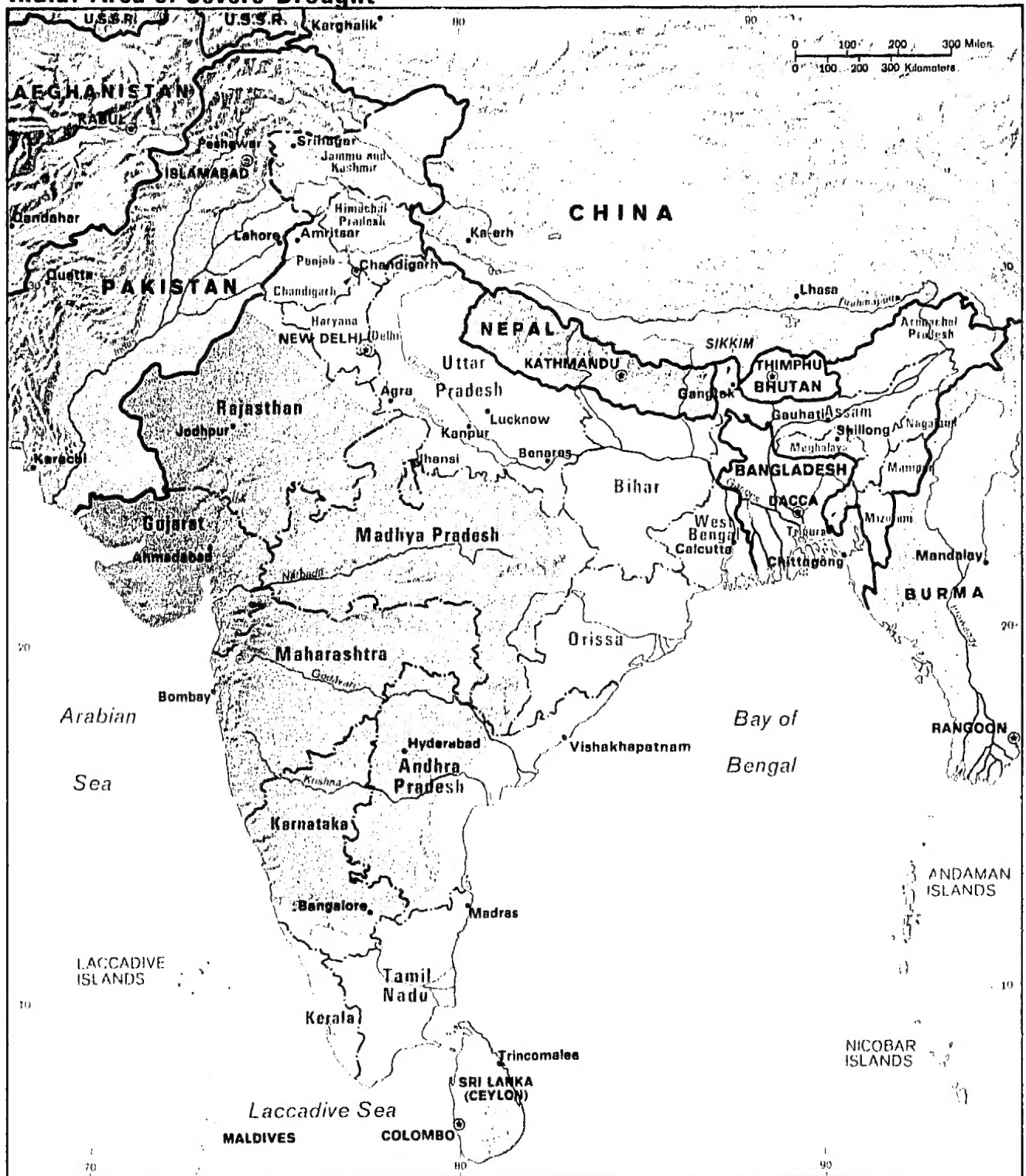
Government Efforts to Combat the Drought

10. When the probability of a poor monsoon became clear last summer, New Delhi finally began taking ameliorative measures with varying degrees of success. Foodgrain prices already had risen sharply, rural unemployment was increasing rapidly, and rumors were spreading of deaths by starvation in hard-hit local areas. Principal measures undertaken by the government included (a) expanding the buffer stock program, (b) saving as much as possible of the drought-damaged fall crop, (c) instituting a major program to expand the forthcoming spring harvest, and (d) importing foodgrains.

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India: Area of Severe Drought



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India: Production of Major Crops^a

				1972/73 Percentage Change Over	
	1970/71	1971/72	1972/73 ^b	1971/72	1970/71
	<i>Million Metric Tons</i>				
Foodgrains	108.4	104.7	96.0	-8	-11
Fall Harvest	68.9	62.0	51.8	-16	-25
Rice	39.6	39.3	33.0	-16	-17
Other grains and pulses	29.3	22.7	18.8	-17	-36
Spring Harvest	39.5	42.7	44.2	4	12
Wheat	23.8	26.5	27.7	5	16
Other grains and pulses	15.7	16.2	16.5	2	5
Oilseeds	9.2	8.4	N.A.
Of which:					
Peanuts	6.1	5.7	3.8	-33	-38
Sugar cane (Crude sugar)	13.0	11.7	10.6	-9	-18
	<i>Million Bales</i>				
Cotton	5.4	7.2	6.3	-12	17
Jute and mesta	6.2	6.8	5.5	-19	-11

a. The crop year is from 1 July to 30 June.

b. Preliminary.

Buffer Stocks

11. New Delhi first attempted to calm public fears by emphasizing that buffer stocks -- about 9.6 million tons in government hands on 1 July 1972 -- were the largest ever and would be ample for any emergency. Procurement from the 1972 spring wheat crop was still under way, and a procurement goal of 4.6 million tons was set for the fall crop, compared with 3.2 million tons the previous year. Procurement did not go well, however, because market prices for the diminished quantities of foodgrains had risen above procurement prices. Despite levies imposed by the government on traders and zonal restrictions on trade, the total amount of grain actually collected from both spring and fall crops amounted to 4.6 million tons, compared with 8.3 million tons in the same period of

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1971. As a result, the grain released through the public distribution system during July-December 1972 included about 6.5 million tons drawn from the buffer stocks.

12. In order to extend its ration system to more of the needy areas, the government increased its retail outlets for subsidized grain from 125,000 in July 1972 to about 164,000 in January 1973, compared with a previous peak of 153,000 at the end of the 1965-66 drought. The monthly subsidized ration per person was reduced to 8 kilograms (kg), about 18 pounds,³ from its previous level of 12 kg. Even so, since December, various deficit states have complained of receiving considerably less grain than they need, and actual monthly rations in a number of areas have been less than 6 kg. Some ration shops in severe drought areas have reportedly closed for long periods for lack of any grain. Central stocks were officially reported at 3 million tons on 1 January 1973 and again on 1 February. Much of this, however, is probably unfit for human consumption, consisting of grain damaged by rain during the procurement process or spoiled during storage.

Saving the Crop

13. During July-December 1972 the government allocated about US \$370 million to help the states fight the drought damage to the fall crops and to provide relief work. Crash programs to save the crops included drilling wells and installing pumps for irrigation, providing loans for seed and fertilizer, and giving priority to agriculture rather than industry for scarce electric power. Relief projects were also planned to expand irrigation facilities instead of the customary road construction as relief work. Lack of equipment and technical expertise required to build irrigation facilities, however, has resulted in the expenditure of less than half of the total allocated funds, and most of the relief projects have involved simply breaking up rocks for future road building. Nevertheless, at the end of 1972, relief projects were providing some work and income for 4.2 million people in severe drought areas, compared with about 2.5 million persons employed on similar projects during the previous drought in the mid-1960s.

Boost for the Spring Harvest

14. In October 1972, in an effort to make up for the poor fall harvest, New Delhi allocated \$220 million to a crash program aimed at increasing the 1973 spring foodgrain harvest by 15 million tons over the 42.7 million

3. This ration would provide about 900 calories per day per capita, roughly 40% of the average caloric intake in India. Foodgrains normally represent about 70% of total caloric intake. In selected areas, people with sufficient income can partly close the gap with free market purchases of grain - reportedly costing double the ration shop price in some areas - sugar, vegetable oils, and home grown vegetables. However, supplies of these and other foods have also been reduced by the drought and their prices have increased sharply.

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tons of the 1972 spring harvest. In January 1973, however, the goal was reduced to an increase of 6 million tons. The less sanguine US agricultural attache in New Delhi has projected an increase of only 1.5 million tons. Among measures to achieve the original goal, the government planned to ensure that farmers had sufficient fertilizer, seed, plant protection, and water to increase the land planted to high yielding varieties (HYV) of wheat to 12 million hectares from 7.5 million hectares the year before. Notwithstanding these plans, a general shortage of water, electric power for pumps, and chemical fertilizer has limited the HYV wheat area to little more than 8.5 million hectares. Moreover, shortages of inputs will curb yields on the hectares actually planted. Specifically, compared with original goals of providing emergency irrigation to 1.5 million hectares and a total of 2.2 million tons of fertilizer, the Ministry of Agriculture reportedly provided water to only 500,000 hectares and made available only 1.5 million tons of fertilizer. India's fertilizer factories were operating at about two-thirds of capacity in the last half of 1972 because of shortages of raw materials, spare parts, and electric power. Moreover, earlier commitments for fertilizer imports from East European countries were not fully met, because those countries elected to sell surplus fertilizers for hard currency instead of rupees. Finally, the United States suspended commodity assistance at the end of 1971, which had included fertilizer as well as raw materials and spare parts for fertilizer factories.

Purchases of Foreign Grain

15. In mid-November 1972 the government announced it would import 1 million to 2 million tons of cereals, substantial quantities of vegetable oils and pulses, and some upland cotton in order to build up stocks. New Delhi apparently felt compelled to make the announcement because of rising domestic food prices and widespread fears of drastic food shortages. The public announcement, however, further increased world prices in a grain market that had already tightened in the wake of large Soviet and Chinese purchases. By the time India began to buy grain in early December, it had to pay \$97 to \$100 per ton for wheat, compared with a mid-November average world price of about \$90 and a July price of about \$50. Shipping costs also had increased by about 30% -- India had to pay an average of about \$17 per ton in December.

16. In mid-January 1973, according to the Minister of Agriculture, total foreign purchases amounted to about 2 million tons at a cost of \$200 million. At the end of January, however, Indian officials in London reported that only 1.5 million tons of grain had been purchased -- 1 million tons of wheat and 500,000 tons of grain sorghum. Of the total, 810,000 tons were purchased in the United States, about 470,000 tons in Canada, and 215,000 tons in Argentina.

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17. New Delhi had hoped that the imported grain would shore up the rationing system until the spring harvest grains could be collected and distributed, beginning in April at the earliest. It now seems that the bulk of the deliveries will be delayed. Only about 200,000 tons will be delivered in February and possibly another 500,000 tons in March and early April. Because of unusual demands on world shipping capacity to move grain to the USSR and the People's Republic of China (PRC) and owing to consequent high charter prices, India apparently has only chartered about 40 ships with a total capacity of 600,000 tons. Moreover, a number of these ships are scheduled to load in US Gulf ports, where in mid-February most ships were being delayed up to a month by port congestion.

18. In mid-October 1972, apparently in anticipation of difficulties in collecting foodgrains, the hierarchy of Mrs. Gandhi's Ruling Congress Party decided that the wholesale grain trade should be in government hands. New Delhi urged the food ministers in the various states to prepare a takeover of wheat and other winter grains trade beginning in April 1973 and of rice and other grains in November 1973, promising that the central government would provide adequate financial support. Some state officials voiced objections and doubts about their ability to handle the trade, but it appears that the takeover will begin as scheduled. As yet, however, the states have received no central guidance regarding key questions, and a high-level committee of central and state government officials has been given until 1 April 1973 to provide policy guidance and advise the central government on the cost of the plan.

Some Implications of the Government's Policies Toward Foodgrain Imports

19. New Delhi apparently has decided not to re-enter the world market until the outcome of India's spring harvest is clear. Government officials have publicly stated that the situation will be reassessed in March. High world grain prices, a desire to conserve foreign exchange, and the arrival of timely rains for the spring crops apparently have prompted the Indian government to delay any decision on large-scale imports. Even if New Delhi does not re-enter the market in March, it is likely to do so in the summer, if only to improve its stock position and tide over the ration system until the fall crops are harvested.

20. Mrs. Gandhi is taking a calculated risk with her "wait and see" policies. The overall food situation is likely to continue to deteriorate at least until the spring harvest, which begins in March in some areas but

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takes place mainly in April and May. Shortages of drinking water and cutbacks in hydroelectric power also could become increasingly acute until the monsoon rains begin in May or June. Even when the spring crop is harvested, distribution problems may cause the situation to remain serious in severe drought areas. Foodgrains already purchased abroad cannot arrive soon enough or in sufficient quantities to permit much relief to even the major port cities until the first part of April.

21. New Delhi has enough foreign exchange reserves to buy large quantities of grain on a commercial basis, if necessary. For several years, however, the government has restricted imports even at the expense of economic development in order to build up reserves to more than \$1 billion, the equivalent of five months of India's total imports. Rather than making a sharp departure from its present tight foreign exchange policies, the Indian government probably would ask the United Nations to arrange food aid on concessionary terms if large-scale imports became necessary.

22. Mrs. Gandhi's calculated risk includes the hope that inflation can be kept under control. At the end of 1972 the wholesale foodgrain price index had increased by 17.4%, compared with a year earlier, and prices in drought areas had increased even more. Pulses, which have been increasingly scarce for several years because of shifts of land to other foodgrains, led the index with a 22% gain. The usual seasonal decline in foodgrain prices during December did not occur and prices continued to rise in January. The cuts in food rations and shortages in severe drought areas led to similarly sharp increases in open market retail prices as well. For example, Rajasthan market prices of coarse grains were reported to be double the ration prices. In Calcutta, prices rose between 15% and 30% during December alone. The industrial sector was faced with a 16% increase in the index of raw material prices. The increase would have been even greater if India had not had a substantial carryover of cotton fibers from a bumper crop in 1971/72. In total, all commodities in the wholesale price index increased by 12% during 1972 after showing increases of only 4% annually in recent years.

23. The central government can expect increasing consumer dissatisfaction, strong criticism in the drought areas, and a growing credibility gap regarding the food situation. Apparently concerned about the possibility of food riots, Mrs. Gandhi has been especially attentive to the needs of the cities. Of the grain already purchased abroad, only 40% is destined for Bombay, the closest metropolis to the drought area. The remainder is destined for the other large cities, including Calcutta and Madras. The rural areas will have to subsist on reduced food supplies and hopes of getting at least some of the imported grain.